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E.O. 12958: DECL: 03/16/2019
TAGS: EFIN ECON PGOV PREL EINV EMIN GV
SUBJECT: CONFLICTING EVIDENCE ON RUMORS OF PRINTING MONEY

Classified By: ECONOFF BRIANA WARNER FOR REASONS 1.4 (B) AND (D)

¶1. (C) Summary: According to two private sector Embassy contacts, the CNDD is in the process of printing large quantities of bank notes to distribute throughout Guinea,s suffering economy. However, contacts within the Central Bank, Ministry of Finance, International Monetary Fund and World Bank have denied these claims and said that they do not foresee an infusion of Guinean Francs (GF) into the economy in the near future. END SUMMARY.

Possible GF Infusion?

¶2. (C) Informal discussions with two Embassy contacts in the banking sector revealed that the GOG is in the process of infusing large quantities of GF into Guinea,s weakening economy. They claim that CNDD representatives in the Central Bank and the Ministry of Finance have quietly made the decision to print more money. The excess currency, printed in China or the U.K., is supposedly intended to help the GOG stay on schedule for debt payments and provide salary support for the military, gendarmerie, and police forces as well as fund consumer subsidies.

¶3. (C) Follow-up discussions with representatives of the World Bank, IMF, Central Bank, and Ministry of Finance have denied any such monetary policies, however. Mamady Koulibaly, an economic specialist at the World Bank office in Guinea, was unaware of such a decision as were representatives in the Ministry of Finance. Mr. Koulibaly noted that GOG expenditures are low in every public and social sector except in the realm of military finance, which seems to be expanding daily. As such, he does not foresee the GOG experiencing significant enough budget shortfalls in the short-run to prompt expansive monetary policy.

¶4. (C) EconOff met with Elhadj Abdoulaye Diallo, the Director General of the Central Bank to inquire about a possible infusion of GF into the economy and he adamantly refuted that such a policy was even under consideration. Mr. Diallo, a technocrat appointed under the Conte regime, then displayed a series of graphs and charts showing the decrease in inflation rates over the past five years. He said that inflation was too much of a concern in Guinea to institute a policy that could exacerbate Guinea,s poverty level.

¶5. (C) COMMENT: High inflation was a chronic problem plaguing Guinea,s economy until 2007, when sound economic policies prevailed to lower the rate to its current fourteen percent. However, the budget of the GOG was reduced significantly during the past year. The most noticeable decrease in revenue was from the mining sector, whose taxes currently comprise

around eighty percent of the GOG,s budget. By the end of this year, the global economic crises is expected to prompt a fifty percent reduction in aluminum prices from what they were in 2006, leaving the government's budget severely underfunded.

¶6. (C) It is important to note that the World Bank estimates current Central Bank reserves around $29 million USD and projects that the end of 2009 may see as little as $6 million USD in the Bank. If global commodity prices for aluminum and bauxite continue to fall, the GOG may find it difficult to maintain public salaries, including those of the military, gendarmerie, and police. For CNDD to maintain support, it is imperative that these wings of the public sector get paid. Reducing public subsidies on gas, rice, and bread may also erode support for the junta government. It is very possible that in the future, if not already, the GOG could infuse new GF into the market as a means of paying their bills. If this policy is put in place, inflation may rise tremendously and find Guinea,s already poor population unable to afford most consumer goods. While the inflation rate has been fairly stable in 2009, a quietly implemented expansionary policy could take months to affect monetary valuation. END COMMENT.
BROKENSHIRE